

TRANSMITTAL SLIP		DATE
TO: VC/NIC		
ROOM NO.	BUILDING	
REMARKS: <i>Maurice</i> <div>State Dept. review completed</div>		
FROM: ANIO/USSR-EE		
ROOM NO.	BUILDING	EXTENSION

SECRET

THE DIRECTOR OF CENTRAL INTELLIGENCE

WASHINGTON, D.C. 20505

National Intelligence Council

DDI #5941-82
20 July 1982

MEMORANDUM FOR: Director of Central Intelligence

FROM

:

[REDACTED]
Acting National Intelligence Officer for USSR-EE

25X1

SUBJECT

:

Discussion Item for Meeting with
Secretary Shultz

1. In this initial meeting with Secretary Shultz, you may want to exchange views on the change in US strategy toward the USSR and the related problems of Europe. As I see it, the essence of the issue is as follows:

- In the 1970s we pursued a policy of placing restraints on the USSR by making it more dependent on increased economic dealings with the West and therefore, so the theory went, less willing to challenge Western security interests.
- European countries (and US business) welcomed this policy, in part because it created a market for some of their more depressed industries.
- The USSR welcomed it as well but unfortunately has showed restraint neither in its military build-up nor in its worldwide activities (e.g., Angola, Ethiopia, South Yemen, Afghanistan, Central America.)
- Consequently the US began changing policy to restrict economic dealings with the USSR (particularly in the case of easy credits, technology), not in the hope that any one restriction would effect a change in Soviet policy but in the hope that the Soviets would have to modify their behavior in the face of a less benign international environment and a deteriorating domestic economy.

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- The problem is that most Europeans are unwilling to forego the shortrun economic advantages of subsidized trade with the USSR.
- Thus the issue for us becomes one of enforcing the new US strategy but without destroying the Alliance.
- The Polish sanctions have become intertwined with this new strategy, have helped to make it more palatable to the Europeans, but should not be confused with the larger strategic issue.
- That does not mean that we should not make tactical adjustments based on changes in Poland but, in the process, we should be careful not to abandon a strategy which is promising even though difficult to explain and implement.

2. I am attaching a cable from Ambassador Galbraith which deals with the pipeline issue in those larger strategic terms, an Economist editorial on Western economic dealings with the USSR and our IIM on Soviet technology acquisition efforts which you may want to give to Secretary Shultz.

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Attachments:
As stated

We have just received a cable from our Charge' in Vienna which bears on the issue since it is a welcome report of European Support for the US strategy (Att. 4)

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NIC/ANIO/USSR-EE/

STAT

Distribution:

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MSGNO 65 (STXX) Z1A *14/07/82* *04:54*
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 TO RUEHC/SECSTATE WASHDC 9485
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EZ1:

S E C R E T PARIS 23921

EXDIS

EZ2:

STATE FOR JAMES BUCKLEY, PASS TO NSC FOR WILLIAM CLARK,
 COMMERCE FOR OLMER, DEFENSE FOR FRED IKLE
 E.O. 12065: GDS 7/12/88 (GALBRAITH, EVAN G.) OR-M
 TAGS: PGOV, ETRG, FR
 SUBJ: THE STRATEGIC JUSTIFICATION FOR PIPELINE SANCTIONS
 REF: PARIS 23676

1. (S - ENTIRE TEXT)

2. IT WOULD APPEAR FROM CONVERSATIONS I HAVE HAD IN
 FRANCE THAT THE STRATEGIC IMPACT OF OUR PIPELINE
 SANCTIONS IS NOT WIDELY UNDERSTOOD. I SET FORTH
 MY ANALYSIS OF OUR STRATEGY, INVITING COMMENT.

3. THE BACKGROUND IS THAT THE SOVIET ECONOMY IS IN
 TROUBLE. APART FROM THE SYSTEM ITSELF THERE ARE
 SEVERAL PROBLEMS: THERE IS A SERIOUS SHORTAGE OF
 FOREIGN CURRENCY IN RELATION TO THEIR EXPANSIONARY FIVE
 YEAR PLANS. IN COMMERCIAL TERMS A RAPID EXPANSION
 WAS COMMITTED FOR BASED ON A CASH FLOW WHICH HAS
 NOT MATERIALIZED, I.E. LIKE BRANIFF AIRWAYS THEY
 EXTENDED THEMSELVES AT THE WRONG TIME. THE CASH
 FLOW IS DOWN BECAUSE OF THE DROP IN SPOT OIL PRICES,
 AS WELL AS PRICES OF DIAMONDS, GOLD AND OTHER RAW
 MATERIALS. POOR HARVESTS, POLAND, AND EASTERN
 EUROPEAN RESCHEDULING HAVE AGGRAVATED THE SITUATION.
 CONSEQUENTLY, THE CREDIT STANDING OF THE SOVIET UNION
 IS UNDER SEVERE SCRUTINY AND IT IS UNLIKELY THAT A
 BALANCE OF PAYMENTS LOAN BASED ON THE CREDIT OF THE

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MSGNQ 65 (STXX) 21A *14/07/82* *04:54*

SOVIET UNION COULD BE ARRANGED TODAY.

4. THE CURRENT SOVIET PLAN IS TO INCREASE THEIR GAS PRODUCTION BY ABOUT 50 PCT. ONLY ABOUT 15 PCT. OF THIS INCREASE WILL GO TO WESTERN EUROPE, WHILE 85 PCT. WILL BE USED TO ENERGIZE SOVIET INDUSTRY WITH GAS. THIS CHANGEOVER TO GAS WILL NOT ONLY COMPENSATE FOR FALLING OIL PRODUCTION AND ALLOW FOR OIL TO BE EXPORTED, IT WILL SET THE BASE FOR FURTHER INDUSTRIAL EXPANSION WHICH WOULD OTHERWISE NOT BE POSSIBLE. IN OTHER WORDS THE SOVIET EXPORTS OF GAS ARE GOING TO PAY FOR THE PIPELINE WHICH WILL TRANSFORM AND EXPAND THE SOVIET ENERGY BASE WHICH IN TURN SHOULD HAVE A PROFOUND BENEFICIAL EFFECT ON SOVIET INDUSTRIAL AND MILITARY CAPABILITY. I REALIZE I MAY BE OVERSTATING THE SIGNIFICANCE OF THE PIPELINE AND THAT MANY OTHER FACTORS CAN DETERMINE THE ECONOMIC SUCCESS OR FAILURE OF THE SOVIET UNION, BUT THE DEVELOPMENT OF SOVIET NATURAL GAS IS WITHOUT DOUBT ONE OF THE MOST IMPORTANT EVENTS IN THE ECONOMIC HISTORY OF THE SOVIET UNION.

5. THE SOVIET SYSTEM IS STRAINED AND TO BUILD THIS PIPELINE THE SOVIETS MUST IMPORT MATERIALS SUCH AS LARGE PIPE AND LARGE COMPRESSORS. DENYING THEM PRODUCTS SUCH AS ROTORS WHICH COME FROM GE TECHNOLOGY REQUIRES THE SOVIETS TO DO SOMETHING ELSE LIKE REDESIGN, REDIRECT THEIR OWN CAPACITIES, PROCURE ELSEWHERE, ETC.; THIS MEANS DELAYS, AND WHEN THEIR CASH FLOW IS DOWN AND THEIR CREDIT STANDING IS FADING, DELAYS COULD MEAN SERIOUS PROBLEMS. THE PIPELINE COULD BE DELAYED BEYOND THE PERIOD NEEDED TO COMPENSATE FOR THE ROTORS. THE QUESTION I POSE IS WHY SHOULD THE UNITED STATES BAIL THE SOVIET UNION OUT OF ITS PROBLEMS BY ALLOWING IT THE USE OF OUR TECHNOLOGY?

6. THE CONTRACTED-FOR GAS EXPORTS TO EUROPE WILL PROBABLY BE MET EVEN THOUGH THE PIPELINE IS DELAYED BUT ONLY BY DRAWING GAS FROM SOME OTHER USE IN THE SYSTEM, ALL OF WHICH ADDS TO THE OVERALL STRAIN. NOR WILL THE CASH THAT COMES FROM THESE EXPORTS OF GAS SOLVE THEIR PROBLEMS BECAUSE MOST OF IT WILL BE DEVOTED FOR SEVERAL YEARS TO PAYING FOR THE NEW PIPELINE.

7. I DO NOT LOOK UPON THIS ISSUE AS ONE OF EUROPEAN DEPENDENCY (UNLESS THERE IS A THIRD SOVIET TRANCHE TO EUROPE, I.E., A SECOND PIPELINE). NOR IS THE DOLLARS 8 TO 10 BILLION NEW CASH GENERATED BY GAS SALES TO EUROPE THE RANKING PRIORITY OF CONCERN, BAD AS IT IS, BECAUSE THAT CASH WILL BE USED FOR SEVERAL YEARS TO PAY FOR THE IMPORTED MATERIALS. THE IMPORTANT POINT IS THE SOVIETS ARE IN ECONOMIC TROUBLE BECAUSE OF THEIR OWN DOING AND THEIR OWN SYSTEM AND THE UNITED STATES IS PERFECTLY JUSTIFIED IN NOT CHOOSING TO HELP THEM MAKE THE QUANTUM LEAP FORWARD THAT WILL COME FROM THEIR EXPANDED USE OF GAS. OUR POLICY NEED NOT BE CHARACTERIZED AS ECONOMIC WARFARE; IT IS SIMPLY A DECISION NOT TO BAIL THEM OUT

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STATE FOR JAMES BUCKLEY, PASS TO NSC FOR WILLIAM CLARK,
COMMERCE FOR OLIVER, DEFENSE FOR FRED IKLE

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MSGNC 65 (STXX) 21A *14/07/82* *84:54*
OF THEIR TROUBLE OR SUPPORT THEIR EXPANSION, TAKEN
AT A TIME WHEN THEIR AGGRESSIVENESS AROUND THE WORLD
CONTINUES.

B. I THINK IT IMPORTANT EUROPEANS UNDERSTAND
WHAT WE HOPE TO GAIN BY AN ECONOMICALLY WEAKENED
SOVIET UNION. IN MY OPINION THEIR ABILITY TO
SUPPORT EXTERNAL SUBVERSION AND AGGRESSION, I.. E.G.,
CUBA, ETHIOPIA, YEMEN, VIETNAM, EL SALVADOR,
NICARAGUA, AFGHANISTAN COULD BE SEVERELY LIMITED.
SECOND, THE SOVIETS MIGHT BE FORCED BY INTROSPECTION
AND COMPARISON TO MODIFY THE NATURE OF THEIR
ECONOMIC SYSTEM.

GALBRAITH

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